Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended June 30, 2013

Canada

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Canadian Grain Commission
Quarterly Financial Report
For the period ended June 30, 2013

1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and Supplementary Estimates. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "A leader in delivering excellence and innovation in grain quality and quantity assurance, research, and producer protection." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are protected**.

The CGC's Program Alignment Architecture has five programs that each contribute to making progress to the sole strategic outcome. The programs are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and Supplementary Estimates.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-2013 Main Estimates.

In fiscal year 2012-2013, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-2014 Main Estimates tabled in Parliament.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament remain on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. However, the CGC's user fees have not increased since 1991 while operating costs have continually increased, and annual grain volumes can fluctuate considerably from year to year. As a result, overall cost recovery has fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent today. The CGC's falling cost recovery level has caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation funded personnel costs and the CGC revolving fund authority which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures that includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

In the fall of 2012, the CGC initiated a process to modernize user fees to align with amendments to the *Canada Grain Act* introduced in Parliament as part of Bill C-45. Bill C-45 received Royal Assent on December 14, 2012. Updated user fees will come into effect on August 1, 2013 and will eliminate the need for annual ad hoc funding going forward.

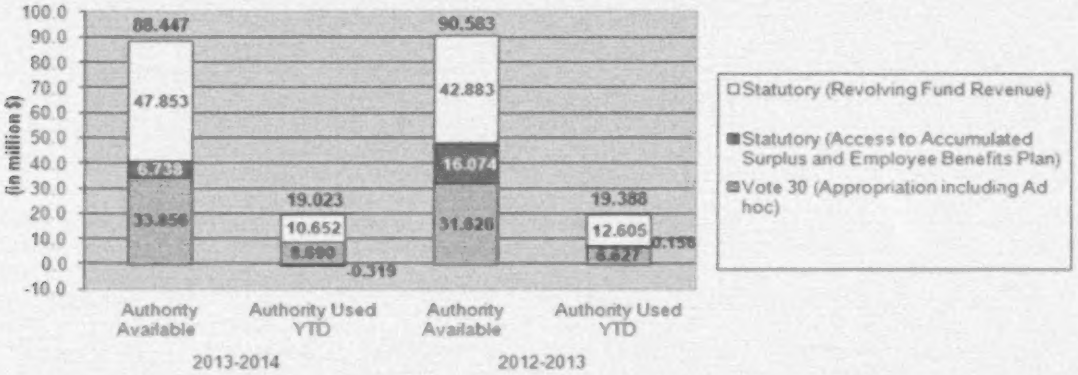
Fiscal year 2013-14 is a transition year for the CGC as the CGC will be implementing its sustainable funding model on August 1, 2013. Planned spending for fiscal year 2014-15 is based on operations under an amended *CGA* and updated user fees. It is anticipated the CGC's planned spending and planned FTEs will stabilize at approximately $59.41 million (funded by annual appropriation of $5.42 million and annual user fees revenue of

approximately $53.99 million) The CGC will recover 90% of its costs through user fees. User fees will increase based on inflation as published in its user fee publication.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures and should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object* which can be found at the end of this report.

Authorities available and used for the period ending June 30, 2013



Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at June 30, 2013 is $40.6 million, as compared to $47.7 million as at June 30, 2012. The decrease of 14.9% ($7.1 million) can be attributed to transition of the CGC to a sustainable funding model on August 1, 2013 resulting in the following changes in the CGC funding source elements:

1. Ad hoc appropriation has increased by $2.2 million over the same period last year due to:
    a. an increase of $12.2 million in its voted appropriations to support work force adjustment obligations with the implementation of amendments to the *Canada Grain Act*. The CGC received a total of $15.2 million with $2.9 million of this amount to support the Employee Benefit Plan amount, and

b. a decrease of $10.0 million in the CGC's ad hoc appropriation authority for 2013-14. Budget 2012 identified ad hoc appropriation authority of $16.8 million for 2013-14 where it had identified ad hoc appropriation of $26.8 million for 2012-13.

2. The CGC access to surplus decreased $12.3 million over the same period last year. The CGC was provided approval to access up to $3.2 million of its accumulated surplus to support its operations for 2013-14. Budget 2012 identified that the CGC should seek authority to access a portion of its accumulated surplus to support its operations in the amount of $15.5 million for 2012-13.

3. Employee Benefit Plan increased $2.9 million over the same period last year due to receipt of $15.2 million to support work force adjustment obligations with the implementation of amendments to the *Canada Grain Act*. $12.2 million of this amount was to support the work force adjustments payments to employees affected by legislative change.

Total available for use reflected in the *Departmental Budgetary Expenditures by Standard Object* differs from the revolving fund gross revenues as stated in both *Main Estimates* and the *Statement of Budgetary Authorities* due to the differences in budgetary authorities and planned spending. Planned spending forecasts re-spendable revenues of grain volumes handled, while Main Estimates reflect authority limit to re-spend revenue.

With the implementation of revised user fees to support its sustainable funding model, the CGC forecasts an increase of $4.9 million in its revolving fund gross revenues authorities. This increase does not affect the change in the CGC budgetary authorities.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary expenditures in the quarter ended June 30, 2013 is $8.4 million, as compared to $6.8 million as at the quarter ended June 30, 2012. The increase of 23.4% ($1.6 million) in total budgetary expenditures can be attributed to an overall reduction in revenues of 15.5% ($2.0 million) as a result of handling lower grain volumes than during the same period last year. With lower revenues, the CGC relied on additional appropriation to fund its expenditures.

Total expenditures in the quarter ended June 30, 2013 are $19.0 million as compared to $19.4 million for the quarter ended June 30, 2012. The decease of 1.9% ($0.4 million) in quarter 1 is mostly attributed to the following significant variances:

1. Personnel expenditures in quarter 1 decreased by 1.4% ($0.2 million) as compared to the same quarter last fiscal year. The reduction in ongoing salary costs was offset by the work force adjustment obligations of employees who have departed the CGC

in the first quarter. Overtime costs were reduced by 18.6% ($0.2 million) over the same quarter last year due to staff availability and lower grain volumes handled; and

2. Travel and communication expenditures in quarter 1 have decreased by 21.4% ($0.2 million) as compared to the same quarter last year due to the reduction in employee travel due to reduced grain volumes handled and through increased use of teleconferencing, videoconferencing and telepresence technology.

As reflected in both the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, overall expenditures are consistent between the quarters.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. The CGC revolving fund is utilized as effectively as possible, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting. The annual budget is also re-profiled through the year to deal with shifting needs and priorities.

Legislation to amend the *Canada Grain Act* was introduced as part of Bill C-45, the *Jobs and Growth Act, 2012*, in October, 2012. Bill C-45 received royal assent on December 14, 2012. Most of the legislative amendments will come-into-force on August 1, 2013. On November 1, 2012, the CGC launched consultations on new CGC user fees that reflect an updated CGA and streamlined CGC operations. The new user fees will take effect August 1, 2013. Updating user fees will eliminate the CGC's dependence on annual ad hoc funding and create a more stable environment for integrated people and business management. A stable funding environment will reduce overall organizational risk and allow the CGC to continue to successfully deliver its program activities and deliver upon its strategic outcome.

4. Significant Changes to Operations, Personnel and Programs

In response to both the legislative amendments and restructured user fees, the CGC focused efforts on modernizing the legislative framework to meet the rapidly evolving needs of Canadian producers and the grain industry and to eliminate CGC services no longer required in today's grain handling environment. For example, amendments include eliminating the requirements for the CGC to conduct mandatory inward inspection and mandatory inward weighing, and transitioning to a CGC oversight role in outward weighing. In addition, the security program, which is a component of the Licensing and Security Sub-Program, is being modified to reduce unnecessary costs to the grain sector and reduce risks to producers.

The CGC's workforce, organizational design and operations will be adjusted going forward as a result of these changes. Planned spending will stabilize at approximately $60 million.

This includes $5.4 million from annual appropriation and projected spending of approximately $53.1 million of revenue earned through user fees plus inflation. Planned human resource requirements will decrease from approximately 731 full time equivalents (FTEs) (as at March 31, 2013) to 404 FTEs by the end of fiscal year 2013-14. The legislative amendments do not impact the CGC's strategic outcome, program alignment architecture, or the program expected results.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and businesses to deal with their government; and, modernize and reduce the back office.

The CGC is unaffected by the savings measures as announced in Budget 2012.

Another measure referenced in Budget 2012 includes funding to support improving conditions for business investment; Budget 2012 provided $44.0 million over 2 years for the CGC to transition to a sustainable funding model.

Approved by:

Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
August 2013

Cheryl Blahey
Chief Financial Officer
Winnipeg, Manitoba
August 2013

Statements of Budgetary Authorities (Unaudited)

For the period ended June 30, 20136	*Fiscal Year 2013-14*			*Fiscal Year 2012-13*		
(in thousands of dollars)	Total available for use for the year ending March 31, 2014*	Used during the quarter ended June 30, 2013	Year-to date at quarter end	Total available for use for the year ending March 31, 2013*	Used during the quarter ended June 30, 2012	Year-to date at quarter end
Vote 30						
Appropriation including Ad hoc	$33,856	$ 8,690	$ 8,690	$31,626	$ 6,627	$ 6,627
Statutory Authorities:						
Revolving Fund Gross Expenditures	51,053	9,828	9,828	58,335	12,605	12,605
Revolving Fund Gross Revenues	(47,853)	(10,652)	(10,652)	(42,883)	(12,605)	(12,605)
Revolving Fund Net Expenditures	$ 3,200	$ (824)	$ (824)	$ 15,452	$ 0	$ 0
Employee Benefit Plan	3,538	505	505	622	156	156
Total Statutory Authorities	6,738	(319)	(319)	16,074	156	156
Total Budgetary Authorities	$ 40,594	$ 8,371	$ 8,371	$ 47,700	$ 6,783	$ 6,783

** Includes only Authorities available for use and granted by Parliament at quarter-end*

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended June 30, 2013

(in thousands of dollars)	*Fiscal Year 2013-14* Total available for use for the year ending March 31, 2014*	Expended during the quarter ended June 30, 2013	Year-to date at quarter end	*Fiscal Year 2012-13* Total available for use for the year ending March 31, 2013*	Expended during the quarter ended June 30,2012	Year-to date at quarter end
Expenditures:						
Personnel	$ 64,705	$ 16,092	$ 16,092	$ 65,148	$ 16,313	$ 16,313
Transportation and communication	3,389	651	651	4,356	828	828
Information	192	34	34	213	21	21
Professional and special services	3,101	332	332	2,998	595	595
Rentals	4,978	1,471	1,471	4,672	1,374	1,374
Repairs and Maintenance	898	88	88	968	-50	-50
Utilities, materials and supplies	1,550	131	131	1,801	180	180
Acquisition of machinery and equipment	3,318	224	224	4,753	121	121
Other Subsidies and payments	1,303	0	0	417	6	6
Total Expenditures	**$ 83,434**	**$ 19,023**	**$ 19,023**	**$ 85,326**	**$ 19,388**	**$ 19,388**
Revolving Fund Revenue (To be credited to Vote)	**(42,840)**	**(10,652)**	**(10,652)**	**(37,626)**	**(12,605)**	**(12,605)**
Total Budgetary Authorities	**$ 40,594**	**$ 8,371**	**$ 8,371**	**$ 47,700**	**$ 6,783**	**$ 6,783**

**** Includes only Authorities available for use and granted by Parliament at quarter-end***

Due to rounding, totals may not add to totals shown.